1969 ANNUAL REPORT

Canadian
Canners
Limited

CANADIAN CANNERS LIMITED AND SUBSIDIARY COMPANIES

Financial Highlights

	Fifteen Months Ended May 31	Twelve Months Ended February 28 (29)			
	1969	1968	1967	1966	1965
Sales	**$ 68,028**	$ 53,677	$ 52,251	$ 50,568	$ 47,954
Earnings from Operations (1) (2)	**754**	1,228	1,172	1,818	1,567
Net Earnings (1)	**1,055**	1,175	1,664	1,796	1,593
Net Earnings Per Share (1) (3)	**.75**	.84	1.18	1.28	1.13
Dividends Per Share (4)	**.76¼**	.75	.75	.75	.75
Working Capital	**17,778**	18,079	16,935	16,500	15,887
Capital Expenditures	**1,452**	915	2,039	2,097	1,333

Figures in thousands except Per Share.

(1) Twelve Months ended February 28 (29) 1965 to 1968 inclusive have been restated as if the deferred tax method of providing for income taxes had been in effect. See Note 2 of "Notes to Financial Statements".

(2) Earnings before gain or loss on sale of properties.

(3) Class A and B Common Shares combined.

(4) Class A only. See Note 5 of "Notes to Financial Statements".

DIRECTORS

Wm. Herbert Carr	*San Francisco, California*
J. E. Countryman	*San Francisco, California*
L. M. Crandall	*Pembroke, Ontario*
W. I. Drynan	*Hamilton, Ontario*
A. W. Eames, Jr.	*San Francisco, California*
G. Arnold Hart, M.B.E.	*Montreal, Quebec*
L. H. Johnston, F.C.A.	*Hamilton, Ontario*
R. M. Mapp	*Hamilton, Ontario*
A. L. Nelson	*Hamilton, Ontario*
Leonard A. Philip	*Toronto, Ontario*
W. S. Sewell, Q.C.	*Toronto, Ontario*
R. B. Yerby, Jr.	*San Francisco, California*

OFFICERS

J. E. Countryman	*Chairman of the Board*
L. H. Johnston	*President and Chief Executive Officer*
R. Fox	*Vice-President — Corporate Development & Controller*
R. M. Mapp	*Vice-President — Marketing*
A. L. Nelson	*Vice-President — Production*
T. V. McGinn	*Secretary-Treasurer*
A. L. Croce	*Assistant Secretary*
D. W. Munn	*Assistant Secretary*

HEAD OFFICE

44 Hughson Street South, Hamilton, Ontario

SUBSIDIARY COMPANIES

Aylmer Foods Warehousing Limited
Boese Foods Limited
Canners Machinery Limited
The Pyramid Canners Limited
Wagstaffe Limited
Walmer Transport Company Limited

REGISTRAR AND TRANSFER AGENTS

Royal Trust Company, Toronto and Montreal

TRUSTEE FOR DEBENTURE HOLDERS

Canada Permanent Trust Company

AUDITORS

Price Waterhouse & Co.

ANNUAL AND SPECIAL GENERAL MEETING

August 22, 1969, 10:30 a.m. (E.D.S.T.),
Sheraton-Connaught Hotel, (Mezzanine Floor), Hamilton, Ontario

Directors' Report to Shareholders and Employees

The directors have approved By-law No. 19 changing the Company's year end from the last day of February to the last day of May. This By-law is subject to ratification by the shareholders at the Annual and Special General Meeting on August 22, and results in the financial statements presented in this report covering the fifteen month period ended May 31, 1969.

Certain unsatisfactory conditions which were encountered by our Company in 1967 have continued throughout 1968 and the early months of 1969. We believe this situation generally prevailed throughout the canned food processing industry. Costs continued to increase in all areas of our operations and we were unable to adjust our selling prices because of distributor and consumer resistance, extremely strong competition from both domestic suppliers and importers, and an industry overproduction of some products. We also sustained losses from strikes in the Summer of 1968 at our main distribution centre and at our jam manufacturing plant. These conditions resulted in decreased earnings over those of the prior year.

Earnings from operations for the fifteen month period ended May 31, 1969 were $754,025. Net Earnings, including the gain on the sale of properties of $301,142, amounted to $1,055,167 or 75¢ per Class A and B common share. The major portion of the gain on sale of properties was realized from the sale of vacant land adjoining our Toronto distribution centre which land is no longer required for our future plans. Sales for the fifteen months of $68,027,684 continued the steady growth pattern that has been the Company's experience over the years.

During the year 1968 the Company followed the same dividend policy of recent years of paying 75¢ per share per annum on the Class A common shares only. However, the January 2 and April 1, 1969 dividends paid on Class A common shares were at the reduced rate of 40¢ per share per annum. This reduction in dividends was a direct reflection of the lower level of earnings. There have been no dividends paid on the Class B common shares, which are substantially all owned by Del Monte Corporation, since the date of issue October 1, 1956. The holders of Class A and Class B shares are entitled to dividends at the rate of 75¢ per share per annum, and the accumulated dividends not declared at April 1, 1969 on Class A shares were $82,000 and on Class B shares $8,777,000.

Effective March 1, 1968 the Company, in accordance with the recommendation of the Canadian Institute of Chartered Accountants, changed to the deferred tax method of accounting for income taxes. Adopting this method on a retroactive basis results in a retained earnings adjustment of $3,640,858 for the cumulative reduction in income taxes up to March 1, 1968.

The Company has taken a complete physical inventory of fixed assets and finalized the results as at May 31, 1969. The extensive consolidation program carried out during the past few years has resulted in many assets being rendered obsolete. In order to reflect this in the records and to recognize that certain other assets are now considered to be of no value, fixed assets and accumulated depreciation with a net book value of $1,489,064 have been written off against retained earnings.

The inventories at May 31, 1969 are higher than desired primarily due to overpacks in a number of products in the 1968 pack season. Production of these products has been adjusted for the 1969 pack season to bring our supply more in line with our sales requirements for the current year. Overpacks are an industry problem and it is hoped that the total 1969 industry production of Peas, Beans, Corn and Tomato Juice, which are in an industry surplus position, will be more in line with annual Canadian consumption requirements.

During the fifteen months capital expenditures of $1,452,312 were made and some long-term lease contracts were undertaken to provide continued improvement in our operating facilities. Depreciation of $1,534,735 has been provided on the buildings and equipment. Lease expense for the period was $570,624.

The Canadian canned food processing industry in the current year is faced with the same major problems that have influenced earnings during the past two years. Costs of produce, packing materials and supplies, wages and interest expense continue to increase, but the selling prices of our products do not reflect these cost increases. The problem is a combination of the resistance by both distributors and consumers to cost warranted price increases; extreme competitive conditions between domestic processors because of some overproduction and efforts to gain market share by special merchandising and promotion offerings; and the continuing influence of many imported products which are allowed to move into the Canadian market at very low prices, particularly in years of surplus foreign production. The future of our industry is dependent on Canadian processors developing long-range solutions to these industry problems.

Mr. Richard Fox was appointed Vice-President, Corporate Development and Controller, effective September 1, 1968. Mr. Fox has been Controller since February 1, 1964.

The directors wish to express their appreciation to our employees for helping to make it possible for our Company to continue to produce and supply our high quality AYLMER and DEL MONTE products.

On behalf of the Board of Directors,

J. E. Countryman, *Chairman.*

L. H. Johnston, *President.*

Hamilton, Ontario,
July 25, 1969.

Consolidated Statement of Financial Position

	May 31, 1969	Feb. 29, 1968
Current Assets		
Cash	$ 11,254	$ 8,344
Accounts receivable	5,807,349	6,371,284
Inventories of merchandise, materials and supplies valued at lower of cost or market	24,658,429	25,933,006
Costs allocable to future operations	2,135,069	860,131
	32,612,101	33,172,765
Current Liabilities		
Bank and other advances	6,576,778	9,823,557
Accounts payable and accruals	5,436,075	4,220,454
Income and other taxes payable	696,290	564,530
Payments due within one year on long-term debt	2,125,200	485,200
	14,834,343	15,093,741
Working Capital	17,777,758	18,079,024
Fixed Assets (details on opposite page) (Note 3)	13,198,085	15,039,192
Other Assets (details on opposite page)	4,366,828	4,355,364
	35,342,671	37,473,580
Deduct:		
Long-term debt (details on opposite page)	3,144,202	5,319,402
Deferred income taxes (Note 2)	4,476,000	—
	7,620,202	5,319,402
Shareholders' Equity	$ 27,722,469	$ 32,154,178
Represented by:		
Capital stock (details on opposite page) (Note 5)	$ 6,296,527	$ 6,296,527
Earnings retained and used in business	21,425,942	25,857,651
	$ 27,722,469	$ 32,154,178

Approved on behalf of the Board
J. E. Countryman, Director
L. H. Johnston, Director

Auditors' Report to the Shareholders of Canadian Canners Limited

We have examined the consolidated statement of financial position of Canadian Canners Limited and its subsidiary companies as at May 31,1969 and the consolidated statements of earnings, earnings retained and used in business and source and use of funds for the fifteen months ended May 31, 1969. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the

Details of Items in Accounts

	May 31, 1969	Feb. 29, 1968
Fixed Assets		
Land, buildings, plant and equipment at cost	$ 27,556,838	$ 33,556,289
Less: Accumulated depreciation	14,358,753	18,517,097
	$ 13,198,085	$ 15,039,192
Other Assets		
Mortgages and long-term receivables	$ 1,124,208	$ 1,112,744
Intangibles — brand names, trade marks, patents, processes, goodwill, etc.	3,242,620	3,242,620
	$ 4,366,828	$ 4,355,364
Long-Term Debt (exclusive of payments due within one year)		
Sinking fund debentures:		
3¾% maturing January 15, 1970	$ —	$ 1,675,000
5% maturing June 15, 1973	2,040,000	2,320,000
Mortgage and notes of subsidiary company payable by installments to 1977	1,104,202	1,324,402
	$ 3,144,202	$ 5,319,402
Capital Stock		
Class A Common Shares without nominal or par value		
Authorized — 1,000,000		
Issued — 468,137	$ 2,098,842	$ 2,098,842
Class B Common Shares without nominal or par value		
Authorized — 2,000,000		
Issued — 936,274	4,197,685	4,197,685
	$ 6,296,527	$ 6,296,527

financial position of the companies as at May 31, 1969 and the results of their operations and the source and use of their funds for the fifteen months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in accounting for income taxes as set out in Note 2 to the financial statements.

Hamilton, July 25, 1969

Price Waterhouse & Co.,
Chartered Accountants.

Consolidated Statement of Earnings

for the fifteen months ended May 31, 1969

	Fifteen Months Ended May 31 1969	Twelve Months* Ended February 29 1968
Sales and operating revenues	$ 68,027,684	$ 53,676,626
Costs and expenses		
Costs and expenses, excluding items listed below	64,746,459	49,768,044
Depreciation	1,534,735	1,218,703
Interest on long-term debt	242,465	210,619
Income taxes (Note 2)	750,000	1,251,000
	67,273,659	52,448,366
Earnings from operations	754,025	1,228,260
Gain (Loss) on sale of properties	301,142	(52,923)
Net earnings	$ 1,055,167	$ 1,175,337

*Twelve months ended February 29, 1968 restated as if the deferred tax method of providing for income taxes had been in effect. (Note 2)

Consolidated Statement of Earnings Retained and Used in Business

for the fifteen months ended May 31, 1969

Earnings retained at March 1, 1968		$ 25,857,651
Net earnings for the fifteen months ended May 31, 1969		1,055,167
		26,912,818
Deduct:		
Retroactive provision for deferred income taxes of prior years (Note 2)	$ 3,640,858	
Adjustment for write-off of net book value of fixed assets (Note 3)	1,489,064	
Dividends on Class A Common Shares (Note 5)	356,954	5,486,876
Earnings retained at May 31, 1969		$ 21,425,942

Consolidated Statement of Source and Use of Funds

for the fifteen months ended May 31, 1969

Source of Funds		
Net earnings	$ 1,055,167	
Depreciation	1,534,735	
Disposal of fixed assets	269,620	
Deferred income taxes (Note 2)	835,142	$ 3,694,664
Use of Funds		
Investment in fixed assets	1,452,312	
Dividends on Class A Common Shares	356,954	
Reduction of long-term debt	2,175,200	
Increase in mortgages and long-term receivables	11,464	3,995,930
Decrease in Working Capital		(301,266)
Working Capital at March 1, 1968		18,079,024
Working Capital at May 31, 1969		$ 17,777,758

Notes to Financial Statements

1.—The financial statements cover the fifteen month period from March 1, 1968 to May 31, 1969. The company has changed the fiscal year end from the last day of February to May 31, subject to Shareholders' ratification.

2.—Effective March 1, 1968, in accordance with the recommendation of The Canadian Institute of Chartered Accountants, the companies have adopted, on a retroactive basis, the practice of providing for deferred income taxes resulting from timing differences between accounting income and taxable income. The retroactive adjustments to retained earnings at March 1, 1968, to give effect to the cumulative reduction in taxes at that time, due to all timing differences, amounted to $3,640,858.

If income taxes had been provided for the fifteen month period on the same basis as in prior years, earnings would have been reduced by $113,000. By claiming maximum expenses allowed for income tax purposes, the company will defer, to future periods, approximately $432,812 of income taxes currently provided. In addition $402,330 of income taxes, included in current taxes payable in 1968 have been reclassified to "Deferred income taxes".

3.—During the fifteen month period the company finalized the first complete physical inventory of land, buildings and equipment taken since 1923. To reflect the consolidation of operating facilities over the years, and in recognition that certain other assets are now considered to be of no value, the company has relieved the fixed asset and accumulated depreciation accounts for the book values of these facilities based on the completed inventory and has made a charge against retained earnings of $1,489,064 equivalent to the net undepreciated value.

4.—At May 31, 1969, Canadian Canners Limited and its subsidiary companies had long-term leases expiring in various years through 1994 covering land, buildings and equipment. The average annual rentals payable under these agreements are estimated at $546,000 for 1970-76, $386,500 for 1977-81 and $155,200 for 1982-94.

5.—The holders of Class A Common Shares are entitled to cumulative cash dividends at the rate of 75¢ per share per annum in priority to any dividends on the Class B Common Shares. Dividends have been paid on the Class A Common Shares up to September 1, 1968 at the rate of 75¢ per share per annum, and at the rate of 40¢ per share per annum on January 2, 1969 and April 1, 1969. Subject to the prior rights of the Class A Common Shares, the holders of Class B Common Shares are entitled to cash dividends accumulating from the date of issue on October 1, 1956 at the rate of 75¢ per share per annum. At April 1, 1969, the accumulated dividends not declared on Class A Common Shares amounted to $82,000 and on Class B Common Shares amounted to $8,777,000. After the Class A and B Common Shares have received payment of all accumulated dividends, Class A and B Common Shares share equally in any dividends in excess of 75¢ per share per annum.

6.—The remuneration received by directors and senior officers during the fifteen months' period amounted to $176,540, including directors' fees and salaries of officer directors amounting to $108,750.

CANADIAN CANNERS LIMITED

To our Shareholders and Employees:

Re: Cyclamates

On October 21, 1969, the Minister of National Health and Welfare announced a ban on cyclamates in foods and soft drinks.

The Minister, also in his official announcement, indicated that the danger to humans from cyclamates is undoubtedly very small.

Our Company has been producing foods for consumers on restricted diets for more than 30 years, and our DIET DE LUXE products contain a very small amount of sweetener which contains cyclamate. The announcement by the Minister has named September 1, 1970 as the official withdrawal date for canned fruit products containing cyclamates.

We believe that many consumers will continue to use our diet products until the withdrawal date. To many consumers on restricted diets these products are their only means of achieving a balanced diet. It is to be hoped that the grocery distributors will continue to make these products available to the consumers that require them.

It is too soon after the Minister's announcement to determine the effect of the ban on cyclamates on our earnings for the current and future years. We will be investigating the matter fully at government and industry levels, and hope to have an assessment of our position at an early date.

We are planning to stay in the diet food business, and by September 1, 1970 we expect to have obtained a suitable sweetener for our new packs of DIET DE LUXE fruit products.

L.H. Johnston
President.

October 24, 1969.

MONTREAL 3,
P.O. BOX 250
845-6108

FINANCIAL COUNSEL

— ESTABLISHED 1925 —

TORONTO 1,
6 Adelaide St., E.
368-1674

Press Article Authorized by:

Canadian Canners Limited,
44 Hughson Street South,
Hamilton, Ontario, Canada.

FOR RELEASE

FRIDAY
AUG.8-69

CANADIAN CANNERS AFFECTED BY UNSATISFACTORY INDUSTRY CONDITIONS

Sales of Canadian Canners Ltd. were $68,027,684 and net earnings $1,055,167 (75 cents per Class A and B common share) for the 15 months ended May 31, 1969. Fiscal year end was changed to the last day of May from the last day of February. Sales totalled $53,676,626 and net earnings $1,175,337 (84 cents) in the year ended Feb. 29, 1968. Results for 1969 included a $301,142 gain on sale of properties.

The Canadian canned food processing industry in the current year is faced with the same major problems that have influenced earnings during the past two years, L. H. Johnston, president, states. Costs of produce, packaging materials and supplies, wages and interest expense continue to increase, but selling prices do not reflect these cost increases. The problem is a combination of the resistance by both distributors and consumers to cost warranted price increases; extreme competitive conditions between domestic processors because of overproduction and efforts to gain market share by special merchandising and promotion offerings; and the continuing influence of many imported products which are allowed into the Canadian market at very low prices, particularly in years of surplus foreign production. The future of the industry is dependent on Canadian processors developing long-range solutions to these problems.

Working capital of $17,777,758 at May 31 was $301,266 below the Feb. 29, 1968 total. Investment in fixed assets was $1,452,312 and reduction of long-term debt $2,175,200 in the 15 months under review. Retained earnings were $21,425,942.

Canadian Canners Ltd.

Profit & Loss	15 Mos. Ended May 31, 1969	12 Mos. Ended Feb. 29, 1968
Sales	$ 68,027,684	$ 53,676,626
Operat. costs	64,746,459	49,768,044
Depreciation	1,534,735	1,218,703
Interest (A)	242,465	210,619
Income taxes	750,000	1,251,000
Operat. earnings	754,025	1,228,260
Sale, properties	301,142-G	52,923-L
Net earnings	$ 1,055,167	1,175,337
Net Class A & B share	$ 0.75	$ 0.84
Paid Class A share	0.76¼	0.75

(A) On long-term debt (G) Gain (L) Loss.

Assets	May 31, 1969	Feb. 29, 1968
Cash	$ 11,254	$ 8,344
Receivables	5,807,349	6,371,284
Inventories	24,658,429	25,935,006
Prepaids	2,135,069	860,131
Current assets	32,612,101	33,172,765
Fixed assets (X)	13,198,085	15,039,192
Other assets	4,366,828	4,355,364
Total assets	$ 50,177,014	$ 52,567,321

Liabilities	May 31, 1969	Feb. 29, 1968
Bank advances	$ 6,576,778	$ 9,823,557
Payables	5,436,075	4,220,454
Taxes	696,290	564,530
L/T debt payts.	2,125,200	485,200
Current Liabilities	14,834,343	15,093,741
L/T Debt	3,144,202	5,319,402
Def.inc.taxes	4,476,000	----------
Capital (Y)	6,296,527	6,296,527
Earnings retained	21,425,942	25,857,651
Total Liabilities	$ 50,177,014	$ 52,567,321

(X) After accumulated depreciation-$14,358,753 in 1969; $18,517,097 in 1968 (Y) Represented by 468,137 Class A and 936,274 Class B shares outstanding.

Working Capital	$ 17,777,758	$ 18,079,024